

Entrepreneur®

Mondragon: a for-profit organization that embodies Catholic social thought.

by Herrera, David

[Review of Business](#) • Wntr, 2004 •

Abstract

The Mondragon Corporacion Cooperativa was founded in the 1950s to promote social and economic development in the Basque region of Spain. Its underlying mission and its working guidelines are based on Catholic Social Thought (CST). In this article we see how the CST foundations of Mondragon have led to a business organization that is very different from the standard business model.

Introduction

Too often in business schools we look at the modern large corporation as the only model for organizing a business enterprise, yet there have been many successful organizations that have adopted a different form. One example is the Mondragon Corporacion Cooperativa ("Mondragon"), a large and successful business which has been built on Catholic social thought principles. This article addresses the response to the "calling" of the Mondragon Corporacion Cooperativa, a for-profit organization, to promote Catholic social thought by embodying it in its stated principles and in its day-to-day practice. Mondragon responds to a calling to holiness as an organization that competes successfully in a global market economy while maintaining its congruence with Catholic social thought. My goal is to illustrate how Mondragon embodies Catholic social thought, as reflected in the 10 basic principles (see Appendix) which, as will be shown, are not just part of an ideal set of guidelines, but are substantiated as pragmatic policies and practices.

This article is structured as follows: first, there is a description of Mondragon and of a contrasting "traditional organization."

Then a brief definition of justice and solidarity according to Catholic social thought is provided, and further explicated throughout the article as the various practical applications of Catholic social thought in Mondragon are described. And third, the Mondragon principles, policies and practices are described, which, for the sake of clarity, have been classified under social justice, economic justice, the dignity of persons and their work, and solidarity, the four main themes in Catholic social thought. However, as will become evident to the reader, the Mondragon principles and practices are closely interrelated and are difficult to classify exclusively in terms of any one concept, because Catholic social thought permeates all aspects of Mondragon.

Description of Mondragon and a Traditional Organization

The following descriptions of Mondragon and a "traditional organization" distinguish the two types of organizations. Mondragon, a for-profit organization with headquarters in the Basque region of Spain, was founded in 1956 by five young engineers, inspired by a Catholic priest by the name of Jose Maria Arizmendiarieta. Today Mondragon has 60,000 managers and employees (called worker-owners) in a conglomerate of almost 150 cooperative enterprises, with annual revenues of eight billion dollars. Mondragon has industrial, retail and financial operations throughout Spain, 34 manufacturing facilities in 12 other countries, three major research and development centers, a multi-campus university, and its own bank and health care system (www.mondragon.mcc.es). Based on Arizmendiarieta's teachings, and on the evolving practical experience of the Mondragon worker-owners for the last 45 years, Mondragon has institutionalized a system of work that is consistent with Catholic social thought. Mondragon is a principle-based, worker-owned and managed

cooperative organization. It promotes broad participation in management while distributing decision-making power throughout the organization. Mondragon is a unique example of an integrated economic and social system that has thrived in profitability and accelerated growth for almost 50 years.

For the purpose of this study, a traditional organization (for-profit or not-for-profit) is characterized by top-down decision-making, (with) restricted participation of employees, a concentration of power at the top of the organization, and limited information about the organization available to employees. A traditional for-profit organization is further characterized by capital investors and employees usually being different people; maximization of economic benefits to primarily reward capital investors; objectives of investors, managers and workers often not being consistent with each other; and voluntary economic participation in the community.

Description of Four Concepts in Catholic Social Thought

For our present purposes, we will limit ourselves to four basic concepts of Catholic Social Thought: social justice, economic justice, the dignity of persons and their work, and solidarity. Abbreviated descriptions of these terms are provided for reference.

Social justice "implies that persons have an obligation to be active and productive participants in the life of society and that society has a duty to enable them to participate in this way" [emphasis on the original, National Conference of Catholic Bishops--henceforth abbreviated as NCCB, No. 71]. The right to participate in economic gains and decision-making is also fostered in Catholic social thought. "The active sharing of all in the administration and profits of ... enterprises ... is to be promoted," because, in economic enterprises, it is persons who work together, that is, free and independent human beings created in the image of God [Gaudium et Spes, 68].

Economic justice is inextricably connected with social justice, because the latter cannot be attained without addressing the former. "Work with adequate pay for all who seek it is the primary means for achieving basic justice in our society" [NCCB, No. 73]. Two of the main components of economic justice, therefore, are the right to work and the right to a just wage [Laborem exercens, 18-19]. "Human labor which is expended in the production and exchange of goods or in the performance of economic services is superior to the other elements of economic life. From this fact "arise[s] every man's duty to labor faithfully and his right to work. It is the duty of society, moreover, according to the circumstances prevailing in it, and in keeping with its proper role, to help its citizens to find opportunities for adequate employment" [Gaudium et Spes, 67].

The dignity of human persons and their work has been part of Catholic social thought from the beginning. As stated in Genesis:

"Man is made to be in the visible universe an image and likeness of God Himself, and ... he is called to work. Work is one of the characteristics that distinguish man from the rest of creatures, whose activity for sustaining their lives cannot be called work" [emphasis in the original, *Laborem exercens*] ... "As the 'image of God' [man] is a person ... a subjective being capable of acting in a planned and rational way ... As a person, man is therefore the subject of work" [emphasis in the original, 6].

Solidarity, for the purpose of this article, is understood as a pursuit of the welfare of all. According to Pope John Paul, solidarity "is the structural response demanded by gospel love ... [It] is undoubtedly a Christian virtue" [12:185]. As described in Pope John Paul II's encyclical letter *Sollicitudo rei socialis* (The Social Concerns of the Church), solidarity is "a firm and persevering determination to commit to the common good ... to the good of all and of each individual, because we are really responsible for all (as cited in Pilarczyk [19:23]). "Solidarity," adds Pilarczyk, "is justice writ large."

Mondragon Principles, Policies and Practices and Catholic Social Thought (1)

It is relevant to initiate the description of Mondragon by referring to Don Jose Maria Arizmendiarieta, the Catholic priest who inspired the founders of Mondragon and whose social thought has profoundly influenced its principles, policies and practices throughout its history. Arizmendiarieta never wrote anything for publication but excerpts from his journals have been published in English as a book called *Reflections*. (2) Due to the essential role that Arizmendiarieta and his social thought have played in the creation and continued transformation of Mondragon, this article will include numerous citations from the *Reflections* book, and for simplicity, unless otherwise noted, his citations will be identified with a page number only.

Mondragon Principles that Promote Social Justice

The two seminal principles that serve as a foundation to promote social justice in Mondragon are democratic organization, and worker-owners' participation. About democracy, Arizmendiarieta wrote: "Democracy, once adopted nobly, is conducive to discipline, to responsibility, to the reaffirmation of solidarity. Definitely, democracy is conducive to authentic social progress" [20:52-53]. About participation, Arizmendiarieta stated: "The self-managed society will be that in which all of us, with our education and willingness to participate, are able to realize accomplishments" [20:57]. He believed that participation in decision-making was necessary to achieve individual and collective freedom and that effective participation was possible only after one became educated and informed about the issues being decided upon [2:818-819].

The Grounding of Justice and Solidarity: Mondragon as a Democratic Organization

The "Mondragon experience" is possible, first and uppermost, because of the principle of Democratic Organization, which creates the legal, moral and operational environment that allows all other principles, policies and practices to exist. According to Pilarczyk, Catholic Social Thought implies that persons should participate in governance according to their capabilities. In other words, "the term social justice ... designate[s] the right and obligation of individual persons to be involved in determining the way in which larger social, economic and political institutions in society are organized" [19:52]. In fact, Pilarczyk adds, decision-making concentrated in small groups robs everybody of part of their human dignity, and even the most benevolent ruler is unjust because "he is disregarding the human responsibility and the human dignity of his people. He is depriving them of their basic right to participate in forming the world in which they live" [19:56]. In a related matter, addressing the need to institutionalize representation, participation and equality at Mondragon, Arizmendiarieta wrote: "The workers of a firm cannot affirm their position as a work factor in the heart of an enterprise until they have representation and participation. The work community needs to have a juridical representation." And added: "Fellowship and solidarity reign where there is equality. When this base is lacking, these feelings are merely temporary and will soon pass" [20:130-131].

Mondragon is accordingly characterized by institutionalized democratic ownership and decision-making. The Democratic Organization principle inextricably links capital and labor by distributing the formation of capital and decision-making power equally among workers and managers. That is, regardless of job classification or hierarchical position, Mondragon worker-owners invest the same amount of initial capital, and participate in decision-making through a one person/one-vote system.

The initial capital contribution is equivalent to one-year's minimum salary. Eighty-five percent of this contribution is deposited in the worker-owner's capital account and 15% in a collective reserve fund. The 85% contribution belonging to the worker-owner draws interest and can be withdrawn when the worker-owner leaves the company. The 15% contribution becomes part of a Mondragon reserve fund. This collaborative system of formation of capital distributes the responsibility and risk of the initial investment equally among worker-owners, instead of selectively among a few major capital investors, as would be the case in traditional organizations. Furthermore, since worker-owners are capital investors, they are entitled to profit sharing. The distribution of profits, however, is variable because it is not based on capital invested but on the type of work done and the performance of the cooperatives.

The Mondragon principle of Democratic Organization, more generally called workplace democracy, emphasizes worker-owners' social and economic values that reflect their rights and responsibilities concerning their personal needs and those of the organization. George Cheney defines workplace democracy, as practiced in Mondragon, as:

a system of governance which truly values individual goals and feelings (e.g., equitable remuneration, the pursuit of enriching work and the right to express oneself) as well as typically organizational objectives (e.g., effectiveness, and efficiency, reflectively conceived), which actively fosters the connection between those two sets of concerns by encouraging individual contributions to important organizational choices, and which allows for the ongoing modification of the organization's activities and policies by the group [5:133].

As defined by Jose Maria Ormaechea, (3) one of the five founders of Mondragon, the Democratic Organization principle "proclaims the basic equality of worker-members with respect to their rights to be, to possess and to know, which implies the acceptance of a democratic organization of the company" [18:144]. The "right to be" advocates social justice because worker-owners have a right to be heard [19]. They can voice their ideas and concerns and participate in the governance of the organization through their membership, opinions and vote.

The "right to possess" promotes economic and social justice because through worker ownership, equality and the distribution of power among Mondragon managers and workers is ensured. This is consistent with Laborem Exercens' suggested "proposals for joint ownership of the means of work, sharing by the workers in the management and/or profits of business, so-called shareholding by labor ..." (emphasis in the original, 14). Joint ownership and participation have also been proposed in the encyclicals *Quadragesimo Anno* (1931) and *Gaudium et Spes* (1966).

The "right to know" fosters social justice because it gives worker-owners an access to accurate information to participate in decision-making. At Mondragon, information about financial and operational activities and results are published openly for all worker-owners.

The Implementation of Justice in Mondragon: Participation

If social justice is made possible at Mondragon primarily through the existence of a democratic organization, worker-owners' democratic participation in decision-making translates this possibility into principles, policies and practices that determine how Mondragon's worker-owners live and work.

The Centrality of Participation in Decision-Making

Worker-owners' participation in decision-making permeates practically all aspects of Mondragon. Having an equal opportunity to participate has broad implications for economic and social justice, because democratic participation assigns the responsibility and the right to make decisions that will affect present and future worker-owners, their families, organizations and communities.

The central role of democratic participation in decision-making in Mondragon can not be overemphasized. That is, examining it in perspective, worker-owners' participation in decision-making has been, is, and will continue to be the determining factor in the establishment of all institutionalized policies and practices. These decisions may impact the worker-owners' own cooperatives as well as the decisions being considered at corporate levels, which are influenced through representatives who reflect worker-owners' decisions made at their own cooperatives. This process is consistent

with the statement: "[S]ince more often ... decisions concerning economic and social conditions ... are made not within the [individual cooperative] business itself but by the institutions on a higher [corporate] level, the workers should have a share also in determining these conditions--in person or through freely elected representatives [Gaudium et Spes, 69]. Since Mondragon has been a participatory organization from the beginning, (4) [6], it can be stated that all principles, policies and practices at Mondragon today owe their existence to worker-owners' participation in decision-making at some point in their history.

Breadth and Scope of Participation

The principle of democratic organization and the resulting worker-owners' participation in decision-making affect practically all aspects of the organization, as illustrated in the following list. Various items in this list have implications for justice and solidarity, and will be further described, although not specifically identified, throughout this article.

1. Economic participation

a. Mondragon initial investment--assuming equal risks and contributing with an equal monetary amount

b. Ownership--having equal rights and responsibilities

c. Profit-sharing--based on work performed and initial investment

2. Democratic participation in decision-making

a. At the corporate level

i. Election of corporate representatives at each cooperative

ii. Decision-making through these corporate representatives who convey decisions made by all worker-owners' votes at each cooperative

b. Participation at each cooperative

i. Election of executive committee, audit and social committee members

ii. Management of enterprise by individual worker-owners' participation in discussions and voting

iii. Personal job design--participation in job descriptions

3. Participation in community development

a. Job creation--monetary fund through personal profit-sharing contributions

b. Community development projects--10% of worker-owners' profit sharing

Finally, it is interesting to note that the reach of worker-owners' decision-making at Mondragon, as exemplified in the above list, is in marked contrast with the absence of participation by most managers and employees in practically any corresponding aspect in traditional organizations.

Participation and Personal Growth

The concept of social justice in Catholic social thought also includes the responsibility for human self-realization through work. It includes a duty to organize economic and social institutions so that people can contribute to society in ways that respect their freedom and the dignity of their labor. That is, work should enable the working person to become "more a human being," more capable of acting intelligently, freely, in ways that lead to self-realization [NCCB:37]. Furthermore, Catholic Social Teaching:

recognizes the legitimacy of workers' efforts to obtain full respect of their dignity and to gain broader areas of participation in the life of industrial enterprises so that, while cooperating with others and under the direction of others, they can in a sense "work for themselves" through the exercise of their intelligence and freedom [Centesimus Annus, 43].

Accordingly, Mondragon "believes that the democratic character of the Cooperative is not limited to membership aspects, but that it also implies the progressive development of self-management and consequently of the participation of members in the sphere of business management ..." [18:158]. These statements indicate that worker-owners are not merely allowed

to participate in the management of Mondragon. Instead, democratic participation is a privilege and a responsibility, so worker-members are expected to be part of the decision-making process. Furthermore, worker-owners are encouraged to improve their education in order to participate competently in all aspects of work, as members of the governance structures, as representatives of worker-owners groups in these structures, as informed voters, and as vocal participants in Mondragon cooperative groups.

Moreover, worker-owners' participation in an organization such as Mondragon reaches beyond sharing economic gains. Greg MacLeod, referring to the growth of human persons, writes: "... [P]articipation in a creative process confers on the worker the dignity of being part of something bigger. The worker becomes more of a person by actualizing inner potentials. As a person, the worker has not only mechanical abilities but intellectual and moral capacities" [16:63]. At Mondragon, participation is a vehicle for personal growth, as worker-owners utilize their intellect, knowledge and freedom to make decisions that have consequences beyond their own work.

Consequently, participation in ownership and profit sharing schemes in organizations is positive but is not enough. To attain social and economic justice, broad democratic participation in decision-making is required. This is where ownership schemes in traditional organizations often fail, because participation without decision-making power may improve economic justice to a limited extent but does not foster social justice in the worker or the community. Whyte and Whyte, comparing Mondragon to traditional American organizations, write: "[t]here is a marked contrast between the Mondragon cooperatives and U.S. private companies regarding participation and governance." In the few cases in which workers participate in U.S. firms, "... they constitute a small minority and have little influence. In Mondragon, all major policy changes are subject to final decision by a majority of the vote of the members" [24:228].

Mondragon Principles That Promote Economic Justice

There are several Mondragon principles, policies and practices that promote economic justice. The Democratic Organization principle has already been shown to provide equality in initial investment and ownership and profit distribution. In addition, aid to socioeconomically-disadvantaged job applicants, a no-layoff policy, and limited pay ratios between managers and factory/field workers are examples of economic justice at Mondragon.

Aid to Socioeconomically-Disadvantaged Job Applicants.

Mondragon has a non-discrimination policy in hiring, as described in the Open Admission principle. Mondragon declares itself "... open to all men and women who accept the Basic Principles and prove themselves professionally capable of carrying out the jobs available ... [18:141]. This is consistent with Catholic Social Thought in that "access to employment and to professions must be open to all without unjust discrimination: men and women, healthy and disabled, native and immigrants" [4: No. 2433].

There are some Western countries, including the U.S., which have laws to avoid discrimination when hiring workers. Many others do not have such legislation or, if they do, it is not enforced. A non-discriminatory policy in hiring may not seem to be particularly impressive to those who work in countries with non-discrimination laws, because their workplaces are in principle obligated to respect such laws. One difference is that Mondragon has voluntarily adopted a non-discrimination policy to promote social justice. But even more meaningfully, Mondragon has added one element of non-discrimination, which reaches beyond providing access to work.

In Mondragon, along with non-discrimination due to religious or political affiliation, race, gender or age, the Open Admission principle includes non-discrimination due to socioeconomic level. This type of non-discrimination may be perceived as unnecessary by some who work in Western countries because of the assumption that "equal opportunities" are afforded in their societies to potential job seekers. This assumption is, of course, debatable since poverty and lack of access to social and political milieus prevents many individuals from having such "equal opportunities."

At Mondragon, the policy of non-discrimination intends to aid those job applicants who have a socio-economic disadvantage, for whatever reason, with a bank loan to pay the initial investment. Thus, if a potential worker-owner, after a one-year trial period, is willing and capable of carrying out an available job but has no economic means to contribute the original capital contribution to buy one share, the Mondragon bank (Caja Laboral) will loan him/her the corresponding amount. This amount can be paid back through monthly installments for three years. This provision does not only promote economic justice but recognizes the dignity of all human beings, created equal in the image of God [Laborem exercens, 4]. It also emphasizes the primacy of human work over capital by considering a human person's capacity to do work as more important than the ability to pay the initial capital investment.

No Lay-Off Policy

One of the most essential tenets of economic justice, according to Catholic social thought, is the right to work. Laborem Exercens states that human persons have a right to work and that "the 'poor' appear ... as a result of the violation of the dignity of human work: either because the opportunities for human work are limited as a result of the scourge of unemployment or because a low value is put on work and the rights that flow from it, especially the right to a just wage and to the personal security of the worker and his or her family" [14:37]. In addition, "unemployment almost always wounds its victim's dignity and threatens the equilibrium of his life. Besides the harm done to him personally, it entails many risks for

his family [4: No.2433]. The right to work, however, has become practically non-existent in traditional organizations as, in the insatiable quest to improve profitability, eliminating human work has become the first line of attack for cost reduction. (5)

At Mondragon, a job is sacred and protecting a worker-owner from losing it is vigorously pursued. Mondragon promotes economic justice and solidarity through the principle of Intercooperation, which includes a no-layoff policy. As a consequence, no worker-owner has ever been fired in Mondragon. Worker-owners are protected from market fluctuations by arranging transfers to other cooperatives if they are displaced due to market-related causes. Mondragon has a mechanism to track, re-train and relocate these displaced worker-owners, who maintain their pay level if they take a new job that pays lower wages. Also, temporarily displaced workers maintain 80% of their last wage until they are relocated.

In addition, workers who need to be relocated due to personal or performance-related reasons are able to do so, after a process of evaluation. That is, at Mondragon it is assumed that an able and willing worker may be ineffective if assigned to a type of work unsuitable for his or her skills, but that there is work somewhere in the organization where this worker can perform adequately. In brief, at Mondragon, "work is 'for man' and not man 'for work'" [Laborem Exercens, 6].

Limited Pay Ratios Between Top Executives and Factory/Field Workers

The principle of Payment solidarity proclaims that "sufficient remuneration, while maintaining solidarity with others, is a basic principle of management" [18:164]. This principle "gives priority, over any other formulation or scope of application of the concept, to sharing in the needs of others" [18:164]. Remuneration maintains, within the parameters of this principle, proportional ratios with similar local industries and equitable ratios within Mondragon.

This principle is one of the most visible examples of solidarity at Mondragon and it has strong implications for economic justice. At Mondragon, there are agreed-upon wage ratios between the worker-owners who do executive work and those who work in the field or factory and earn (in theory) a minimum wage. These ratios range from 3:1 to 9:1 in different cooperatives and average 5:1. That is, the general manager of an average Mondragon cooperative earns 5 times as much as the theoretical minimum wage paid in his/her cooperative. This ratio is in reality smaller because there are few Mondragon worker-owners that earn minimum wages, their jobs being somewhat specialized and classified at higher wage levels. In addition, the ratios are further diminished because Spain uses a progressive tax rate, so those with higher wages pay higher taxes.

It should be noted that, although the ratio for each cooperative varies, it is worker-owners within that cooperative who decide through a democratic vote what these ratios should be. Thus, if a general manager of a cooperative has a ratio of 9:1, it is because its worker-owners decided it was a fair ratio to maintain, considering wages in comparable jobs in other similar local companies and acknowledging the complexity, scope or technological expertise corresponding to that job.

In general, wages at Mondragon, as compared to similar jobs in local industries, are 30% or less at the management levels and equivalent at the middle management, technical and professional levels. As a result, Mondragon worker-owners at the lower wage levels earn an average of 13% higher wages than workers in similar businesses.

The principle of Payment Solidarity is based on economic justice and the dignity of work. Ormaechea states that

amongst the motives which inspired the [Mondragon] experience ...
was the reduction of the gap in the enjoyment of wealth generated
by work. The payment differential in [traditional] companies was
enormous and discriminatory and ... salaries were insufficient at
lower levels, with the result that workers had to live in want

[18:164].

Many observers who work in traditional organizations are often perplexed by the acceptance of Mondragon managers of lower remuneration when there are opportunities to earn more elsewhere. This is because Mondragon worker-owners perceive work not as a commodity to be bought and sold based on market supply and demand, and therefore market forces are not the main determinant of remuneration levels.

Instead, Mondragon managers bestow much more importance to the pursuit of economic justice than to the accumulation of monetary resources, which may prevent people with lower wages from improving their standard of living. Although worker-owners at all levels agree that some differential in remuneration is justified among jobs, the wage gap among them is limited because they believe in the dignity of work. That is, it is recognized that the work performed by all worker-owners is worthy of dignity, and they are all interdependent--the machine operator needs the general manager as much as a general manager needs the machine operator. In brief, in contrast with traditional organizations in which the differentials in remuneration may reach 400:1 or more, at Mondragon the wage ratios are kept at levels in accordance with economic justice, dignity is maintained for the people who earn less, and their work is valued.

Mondragon Principles That Promote the Dignity of Human Persons and Their Work

According to Catholic social thought, promoting economic justice is not enough if the dignity of human persons and their work are not respected. "Economic life is not meant solely to multiply goods produced and increase profit or power; it is ordered first of all to the service of persons, of the whole man, and of the entire human community [4: No.2426]. And, as stated by Lebacqz [15:69]:

The dignity of persons requires not only treating them justly in determination of wages, but also according them their full measure of total human rights. An economic system that produces large quantities of goods and distributes them fairly will nonetheless be "unjust" if its organization and structure are such "that the dignity of workers is compromised, or their sense of responsibility is weakened, or their freedom of action is removed" [Mater et Magistra, No. 83].

Arizmendiarieta, addressing the dignity of human persons, wrote: "If we have learned anything in life it is that the primary factor in everything is the human being, as well as his or her quality and spirit" [2:26]. And, about the dignity of human labor: "Work is the attribute that gives a person the highest honor of being a cooperator of God in the transformation and fertilization of nature and in the resulting promotion of human well-being ..." [2:116]. Arizmendiarieta also had a high respect for human work and its primacy over capital. He wrote: "Is work not a more noble, ancient and human element than capital, and, as such, worthy of a greater esteem? Could the aspiration to the primacy of work be considered an unjustifiable ambition?" [2:118]. And also: "Work is not God's punishment but instead proof of the trust God gives humans by making them fellow collaborators" [2:113].

There are two Mondragon principles that advocate the dignity of human persons and their work. These are The Sovereignty of Labor over Capital and The Instrumental and Subordinate Character of Capital. At Mondragon, worker-owners are the protagonists of work and capital is a tool to achieve work. "Labor is the principal factor for transforming nature, society and human beings themselves ..." [18:148]...." Capital [is] to be an instrument, subordinate to Labour, necessary for business development ..." [18:153]. These principles state unequivocally that at Mondragon capital is a means, an object, to accomplish work and that human persons are the subjects of work.

Nevertheless, although subordinated to labor, it is acknowledged that capital is necessary to accomplish work. As stated by Ormaechea, capital is "worthy of remuneration" which is: "just, in relation to the efforts implied in accumulating capital; adequate, to enable necessary resources to be provided; limited in its amounts, by means of corresponding controls; and not directly linked to profits made" [18:153].

Furthermore, in addition to the primacy of labor over capital, the principle of Democratic Organization places labor and capital in "right relationship" because it "overcomes the opposition between labor and capital" [Laborem exercens, 12] by owners being workers, and workers being owners. (6) Labor and capital cannot naturally be opposed because it is human labor that has produced the advances in technology and science through the ages and it is accumulated human labor that has produced capital (Ibid.), so labor and capital are intimately related, the latter being a fruit of the former.

The Essential Role of Solidarity in Pursuing Justice in Mondragon

Along with democracy and participation in decision-making, solidarity provides a strong foundation for economic and social justice at Mondragon. Solidarity is not described as one of the 10 Mondragon principles mentioned in the Appendix, because it underlies them all. Solidarity, as understood in Mondragon, reaches beyond worker solidarity as a means to avoid the exploitation of workers [Laborem exercens, 22]. Instead, writes Arizmendiarieta, "[t]he test of an authentic feeling of solidarity is precisely that through which each one contributes to the common needs ..." [2:137]. This is in accordance with Pope John Paul II's statement:

[A] new solidarity deal ... is not impossible ... Business leaders should make their needs for increased capital and profits compatible with requirements of social justice and a working community respectful to its members' personalities and creativities.... [E]veryone should be persuaded that a nation, as a community of people, must be built upon sound ethical and moral

foundations, and that each and every member must feel responsible

for the welfare of all [cited in 22:356].

Arizmendiarieta understood the paramount importance of solidarity in cooperatives and wrote extensively about it. As related to work: "Those who with a conscience of solidarity have accepted their own integration into a cooperative and know that effective solidarity exists to the extent that each one can yield some of what is theirs in honor of the common good" [2:137]. About the relationship with others: "Being in solidarity is accepting others, not only as they are, but also as they could be; tolerating their limitations and defects, but not renouncing to the impulse of welcoming them to overcome them with our service ..." [2:134]. And, as a transforming agent of society: "For me, solidarity is the key, even the atomic secret that will revolutionize all social life. Collaboration of class, collaboration of theory and spirit, and the collaboration of the people with their authorities and of the authorities with their people, is the secret of the true social life and the key to social peace" [2:132].

As expressed by Ormaechea: "A constant in cooperativism, both theoretical and practical, is solidarity" [18:164]. In his words, Mondragon was founded on

the firm conviction that solidarity is the best way to insure that
all workers can live with dignity and justice; the struggle to
refrain the hedonistic impulse to think only about oneself ...; the
pursuit and satisfaction of common interests and needs; and the
imagination to conceive new forms to manage social processes to
make justice possible [18:15].

Solidarity Within Mondragon, With the Immediate Communities and Beyond

The agreement to organize as individual members of cooperatives and as a group of interdependent collaborative organizations to form the Mondragon Corporacion Cooperativa is in itself a strong statement of solidarity. Cooperative work requires mutual care and help, working closely and sharing with each other, participating, compromising, negotiating and often accepting decisions contrary to one's wishes. Furthermore, solidarity at Mondragon encompasses not only close collaboration among worker-owners, but social responsibility with the immediate communities, and aid to less-advantaged communities elsewhere, reflecting the spirit of solidarity that reaches beyond one's area of interest to serve humanity, just as described in Catholic social thought. Some examples of solidarity at Mondragon follow.

Maintaining Stable Income Levels

The no lay-off policy, the willingness to retrain and absorb displaced workers among cooperatives, and the limited pay ratios between top executives and factory/field workers mentioned earlier foster not only economic justice but also solidarity within Mondragon. A related policy is the maintenance of stable income levels. This is included under the principle of Intercooperation as "the pooling of profits" among five to seven cooperatives which are grouped in "clusters" [18:169]. This policy protects worker-owners from excessive profit sharing income variations, which are common due to temporary market fluctuations. In the rare event that a cooperative has several consecutive years of low profits, however, an evaluation is made to assess its continued viability.

Creating Jobs: Mondragon's Priority in Solidarity With the Immediate Community

The most evident demonstration of solidarity of Mondragon worker-members is contained in the principle of Social Transformation. Pursuing social and economic justice as well as solidarity with the community, Mondragon endeavors first and foremost to create jobs. In fact, the creation of employment is one of the main stated objectives of Mondragon. Ormaechea states that worker-owners agree that Mondragon is "to [manifest] its will to extend the options for work to all members of society" [18:148]. Actually, Mondragon reaches beyond the responsibility of a direct employer, as described by Laborem Exercens, which distinguishes between the responsibilities of the direct and indirect employers. The direct employer contracts work directly with each worker, and the indirect employer, which is usually the government, influences the labor relationship and is responsible for "establishing an ethically correct labor policy, [through which] the objective rights of the workers are fully respected" [14:17]. Therefore, it is the responsibility of the indirect employer to act against unemployment and, if employment is not provided, the indirect employer has the obligation to provide unemployment benefits. Mondragon is primarily a direct employer, but, by creating and protecting workers and their jobs, it also performs the task assigned by Laborem Exercens to the indirect employer. Mondragon not only assertively creates and preserves employment, but it also, as previously mentioned, protects temporarily displaced workers through a fund that pays 80% of their income until they are retrained and relocated.

Furthermore, the financing scheme to create jobs shows the commitment of Mondragon worker-owners, who agree to reduce their personal profit sharing in order to create more jobs. Furthermore, worker-members also agree to postpone the

use of the remaining personal share of profits to finance the creation of more jobs. That is, worker-owners in cooperative enterprises in Spain by law may receive up to 70% of the profits; they must deposit 20% in a cooperative reserve fund, and contribute 10% of their profits to the community. At Mondragon, worker-owners have collectively decided to reduce the profits that they may receive to 45%, have increased the deposit in the cooperative reserve fund to 45%, and have maintained their contribution of 10% of the profits to the community. Also by worker-owners' agreement, the 45% of funds that they are entitled to receive are deposited in a personal bank account and the use of these funds is postponed until retirement. This decision provides Mondragon with 90% of the profits (45% from the deposits of worker-owners on personal bank accounts plus 45% of the reserve fund) to finance growth and thus job creation.

This financial scheme, again the result of a collective decision of worker-owners, demonstrates their strong belief in pursuing the common good. Mondragon is a profitable organization and its worker-owners could elect to accumulate capital, as investors would in traditional organizations. Instead, Mondragon worker-owners make most of their profits available to the Caja Laboral bank "on the understanding that this socializes profits, strengthens the company technologically and accumulates the financial means to enable the development of new activities and jobs" [18:151]. As a result of the pursuit to create cooperative jobs, Mondragon has grown from 28,000 in 1995 to 60,000 worker-owners at the end of 2001, an increase of more than 100%.

The question occasionally arises about the allocation of 90% to creating jobs while maintaining the 10% share for community projects. This reflects the strong preference of Mondragon worker-owners for justice over charity. Potential workers, who get jobs at Mondragon, gain dignity as persons and in their work and participate in economic justice because they receive fair pay and are able to support their families and themselves. In addition, they enjoy social justice because they are able to participate in making decisions that affect them directly, and have the opportunity to grow as persons and as social beings because they become part of a successful social group. They can then contribute to the community as Mondragon worker-owners.

Mundukide, an Organization in Solidarity Beyond the Immediate Communities

In 1999, Mondragon formed Mundukide Fundazioa, a foundation that reaches beyond the immediate communities of Mondragon. This is in accordance with the principle of Universal Nature. According to Ormaechea, Arizmendiarieta once said: "we should be concerned with those who form the legion of labour and who hope to progress and transform profoundly their structures. A whole economic world for those who need the force that we can offer in economic and financial plans" [18:181]. Accordingly, the following expresses the purpose of Mundukide:

[Ours] is an attempt to respond in a responsible way to our duty of solidarity with those that need it. It is an effort to adapt to our times so that not only in markets and production but also in equity, solidarity and justice we find ways to collaborate with people who are distant and different but who are our neighbors in this global world [13:35].

According to Jokin Esnal, President of Mundukide, its objectives are integral provincial development, intercooperation in developing countries, and sharing of community experiences [8]. A current integral provincial development project is being carried out in Niassa, north of Mozambique, where a poor but willing local population is being helped to create basic infrastructure and jobs by forming microenterprises, building roads, schools, health centers and agricultural cooperatives. The project includes two initiatives: the improvement of education, health, nutrition and potable water, and the generation of funds through the promotion of cooperative enterprises [7]. A worker-owner from the FAGOR cooperative has committed to train a team of local managers for two years [21]. MALE YERU (our money), a credit institution to finance microenterprises, has given a financial contribution from Mundukide of \$300,000 U.S. dollars. A mobile office and two branch offices have been created, and a personnel training program has already been established [1].

A project of intercooperation in San Clemente, Colombia consists of Mundukide providing management training and operational guidelines to a local group of promoters that is creating a cooperative group. This project consists of a distribution center for local agricultural products, to be followed by the creation of agro industrial enterprises and organic fertilizers. The distribution center of San Clemente has already been established to commercialize agricultural products from 1,700 small local producers [17:37].

Sharing community experiences was initiated in 1999 with a group of nine community leaders of six Latin American countries, coupled with visits of 18 Mondragon University students who completed special projects in these countries. This activity has continued, and the third annual session with cooperativists from Africa and Latin America took place in Mondragon during 2002.

Conclusion

In summary, it is because Mondragon is worker-owned, and its worker-owners are empowered to institutionalize their decisions through democratic participation, that Mondragon can be said to be an organization, instead of a mere group of individuals, that responds to the "calling" to promote Catholic social thought at the workplace. This paper illustrates that Mondragon worker-owners live and work according to principles, policies and practices that promote social and economic justice and the dignity of human persons and their work, grounded in solidarity with each other, the community and the world at large.

Mondragon is of course not a perfect organization, and, as it continues to expand in global markets, it faces numerous challenges to maintain its commitment to its basic principles. Yet, Mondragon history demonstrates that worker-owners have been able to adapt to major changes in the past while maintaining their basic principles intact, and they will undoubtedly overcome new challenges successfully in the future. I make this statement confidently because it has been evident to me, after sharing numerous experiences with Mondragon friends for the last eight years, that the spirit, belief in themselves and their principles, democratic decision-making, and the unshakeable solidarity of the Mondragon people are their major strengths.

Appendix

Ten Basic Principles of Mondragon

(Ormaechea, J. M. The Mondragon Cooperative Experience. Mondragon, Espana: Lit Danona, S. Coop, 1993.)

The Mondragon organization is grounded on 10 basic principles that balance individual, organizational and community needs:

1. Open Admission

Mondragon is open to all persons who are capable of carrying out the available jobs. There is no discrimination based on religious or political grounds, nor due to race, gender, age, or socio-economic levels. The only requirement is the acceptance of these Basic Principles.

2. Democratic Organization

Workers are owners, and owners are workers. Each cooperative is managed by a system of "one person-one vote."

3. Sovereignty of Employee's Work Over Capital

Workers join Mondragon and become owners after making a capital contribution at the end of a trial period. All workers are entitled to an equitable distribution of profits. The return on saved or invested capital is just but limited, and it is not tied up to the surpluses or losses of the cooperatives.

4. Subordinate Character of Capital

Capital is a means to an end, not an end in itself. Available capital is used primarily to create more jobs.

5. Participatory Management

Worker-owners participate in decision-making and the management of the cooperatives. This implies development of self-management skills. Formal education and adequate information is provided to improve worker-owners' ability to participate competently in decision-making.

6. Payment Solidarity

Remuneration is regulated internally and externally. Internally, an agreed differential between the highest and lowest paid job is applied. Externally, a remuneration level is maintained in relationship with similar local industries.

7. Intercooperation

Cooperatives form Groups to pool profits, to absorb worker-owner transfers when necessary, and to attain synergies. These Groups associate with each other to support corporate institutions. Mondragon associates with other Basque cooperative organizations to promote the cooperative model.

8. Social Transformation

Mondragon cooperatives invest a majority of their profits in the creation of new jobs. Funds are also used in community projects and in institutions that promote the Basque culture and language.

9. Universal Nature

Mondragon proclaims its solidarity with other cooperative movements, with those working for economic democracy and with those who champion the objectives of peace, justice and human dignity. Mondragon proclaims its solidarity especially with

people in developing countries.

10. Education

Mondragon cooperatives commit the required human and economic resources to basic, professional and cooperative education in order to have worker-owners capable of applying all basic principles mentioned above.

Endnotes

- (1) An often expanded version of the text about Mondragon's principles and practices in this paper has been previously published, in the chapter I wrote in *Work as key to the social question* [10].
- (2) Arizmendiarieta's journal excerpts have been published in a book called *Pensamientos* (1994), which has been translated to the English language as *Reflections* (2000). Although various authors have written about Arizmendiarieta, I am using his original writings as the main source of his social thought in this paper.
- (3) Several books about Mondragon have been written by its founders. The *Mondragon cooperative experience*, written by Jose Maria Ormaechea (sometimes spelled as Ormaetxea, in other books he wrote) in 1993, addresses in some detail the original thoughts behind the 10 principles of Mondragon. Therefore, I have relied heavily on this source.
- (4) Participation in decision-making has been in effect in Mondragon from its creation in 1956, evolving from worker-owners' vote corresponding to their job levels in 1956 to a one-member/one-vote in 1971 [9].
- (5) For a further explanation about the negative consequences of the violation of the right to work, see David Herrera's chapter "Laborem exercens, 'traditional organizations' and the democratic Mondragon model" in [10:238-242].
- (6) Mondragon prefers not to hire or to contract salaried workers. This is because worker-owners prefer relationships of equality through ownership, and consider hiring workers for a salary as a source of inequality between the person doing the hiring and the person being hired. Therefore, Mondragon intends to have no more than 10% of its total number of workers as contracted salaried workers, to absorb temporary fluctuations in market cycles. Maintaining this level of salaried workers with no ownership, however, has become a challenge because recent growth has continued to accelerate, increasingly through acquisitions of non-cooperative organizations. Practically all of these new ventures have eventually become cooperatives, but Mondragon has a policy of allowing the corresponding workers to decide if they want to become part of the cooperative system after being exposed to it, and this process takes a few years. In addition, new operations outside of Spain, a relatively small but rapidly growing percentage of the total operations, have been slow in adopting the cooperative system.

References

1. Asunto terminado [Finished business]. TU Lankide, May 2002.
2. Azurmendi, J. *El hombre cooperativo. El pensamiento de Arizmendiarieta*. [The cooperative man. The thought of Arizmendiarieta]. Aretxabaleta, Spain: Otalora (Azatza), 1992.
3. Berretta, S., Naughton, M. and Verstraeten, J. *Work as the Key to the Social Question*, edited by S. Berretta, Vatican City: Libreria Editrice Vaticana, Pontifical Council for Justice and Peace, 2002.
4. *Catechism of the Catholic Church*. London: Geoffrey Chapman, 1994.
5. Cheney, G. *Values at work. Employee participation meets market pressure at Mondragon*. New York: The Cornell University Press, 1999.
6. National Conference of Catholic Bishops (NCCB). *Economic Justice for All. Pastoral letter on Catholic social teaching and the U.S. economy*. Washington D. C.: United States Catholic Conference, 1986.
7. *El regreso de Mozambique* [The return from Mozambique]. Tu Lankide, July 2001.
8. Esnal, J. *Las cooperativas se han comprometido responsablemente con la Fundacion Mundukide* [The cooperatives have responsibly committed themselves with the Mundukide Foundation]. TU Lankide, December 2000.
9. Greenwood D. & Gonzalez, J. L. *Culturas de FAGOR. Estudio antropologico de las cooperativas de Mondragon* [The cultures of FAGOR. Anthropological study of the Mondragon cooperatives]. Donostia-San Sebastian, Spain: Editorial Txertoa, 1989.
10. Herrera, D. "Laborem exercens, 'traditional organizations' and the democratic Mondragon model." *Work as key to the social question. The great social and economic transformations and the subjective dimension of work*. Vatican City: Pontifical Council for Justice and Peace, 2002.
11. Herrera, D. *What are the Mondragon values and how relevant are they to the Mondragon experience? A qualitative*

research study. (Unpublished), 2000.

12. Kammer, F. Doing faithjustice. An introduction to Catholic social thought. New York: Paulist Press. 1991.
13. La transformacion del entorno "proximo." [The transformation of the "nearby" environment]. TU Lankide, May 2001.
14. Laborem exercens (On human work, Encyclical letter of John Paul II). In O'Brien and Shannon, (Eds.) Catholic Social Thought: The Documentary Heritage. Maryknoll, New York: Orbis Books, 1981.
15. Lebacqz, K. Six theories of justice. Perspectives from philosophical and theological ethics. Minneapolis, MN: Augsburg Publishing House, 1986.
16. MacLeod, G. From Mondragon to America. Experiments in Community Development. Sydney, Nova Scotia: University College of Cape Breton Press, 1997.
17. Mikeo, J. A. Esta primera actividad puede generar posibilidades de colaboracion. [This first opportunity can generate new possibilities of collaboration]. TU Lankide, March 2001.
18. Ormaechea, J. M. The Mondragon Cooperative Experience. Mondragon, Espana: Lit Danona, S. Coop, 1993.
19. Pilarczyk, D. Bringing Forth Justice. Cincinnati, Ohio: St. Anthony Messenger Press, 1999.
20. Reflections. Aretxabaleta, Spain: Otalora (Azatza), 2000.
21. Sarasua, J. M. Mundukide: Tres anos despues. [Mundukide: Three years later]. TU Lankide, February 2002.
22. Sosa, E. H. "Actores Colectivos y el Trabajo Humano: el Dialogo Social en America Latina" (Collective Actors and Human Work: Social Dialogue in Latin America). Work as key to the social question. The great social and economic transformations and the subjective dimension of work. Vatican City: Pontifical Council for Justice and Peace, 2002.
23. The documents of Vatican II. The message and meaning of the ecumenical council. New York: American Press, 1966.
24. Whyte, W. F. & Whyte, K.K Making Mondragon. The growth and dynamics of the worker cooperative complex. Ithaca, New York: ILR Press, 1991.

David Herrera, University of San Diego

COPYRIGHT 2004 St. John's University, College of Business Administration Reproduced with permission of the copyright holder. Further reproduction or distribution is prohibited without permission.

Copyright 2004, Gale Group. All rights reserved. Gale Group is a Thomson Corporation Company.

NOTE: All illustrations and photos have been removed from this article.

Copyright © Entrepreneur Media, Inc. All rights reserved. [Privacy Policy](#)